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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

FEB 15 2005

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FEB 16 2005

AZ Corporation Commission
Director Of Utilities

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC. FOR A LIMITED
WAIVER OF THE REQUIREMENTS OF
A.A.C. R14-2-801, ET SEQ., AND CERTAIN
RELATED RELIEF.

Docket No. W-01303A-01-0983

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
SUN CITY WEST WATER AND
WASTEWATER DISTRICTS.

Docket No. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
SUN CITY WATER AND WASTEWATER
DISTRICTS.

Docket No. WS-01303A-02-0868

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
MOHAVE WATER DISTRICT AND ITS
HAVASU WATER DISTRICT.

Docket No. WS-01303A-02-0869

DECISION NO. 67593

OPINION AND ORDER

Docket No. WS-01303A-02-0870

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
MOHAVE WATER DISTRICT AND ITS
ANTHEM WATER DISTRICT, ITS AGUA
FRIA WATER DISTRICT, AND ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT.

Docket No. W-01303A-02-0908

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
TUBAC WATER DISTRICT.

DECISION NO. 67593
OPINION AND ORDER

Open Meeting:
Phoenix, Arizona
BY THE COMMISSION:

I. Procedural History

A. RWE Case

On December 17, 2001, Arizona-American Water Company ("Arizona-American" or "Company") filed an application¹ with the Commission for an order (1) declaring that the Commission's Affiliated Interests Rules (A.A.C. R14-2-801 et seq.) did not apply to the proposed acquisition of its parent company by RWE AG; (2) in the alternative, granting a waiver of the Affiliated Interests Rules for the acquisition; or (3) in the alternative, approving the acquisition under the Affiliated Interests Rules. After a hearing, the Commission adopted Decision No. 65453 ("RWE Order"), which approved the proposed acquisition under the Affiliated Interests Rules with various conditions. Condition 15 of the RWE Order imposed a three-year rate moratorium on Arizona-American. The three-year moratorium began on the closing date of the acquisition, and concludes on January 10, 2006.

¹ Docket No. W-01303A-01-0983 (the "RWE Case").

1 Arizona-American filed a timely Application for Rehearing, which was denied by operation
2 of law. Arizona-American appealed the RWE Order to both the Arizona Court of Appeals and the
3 Superior Court. The Court of Appeals, in a published opinion, found that it did not have jurisdiction
4 to consider the appeal. *Arizona-American Water Co. v. Arizona Corporation Commission*, 437 Ariz.
5 Adv. Rep. 3, 98 P.3d 624 (App. 2004). Arizona-American's appeal in Superior Court is currently
6 set for oral argument on March 7, 2005.

7 **B. Rate Case.**

8 Before the moratorium period began, Arizona-American filed a rate case for most of its
9 systems in Arizona.² The Rate Case did not include Arizona-American's Paradise Valley Water
10 District. After a hearing, the Commission issued its rate case order as Decision No. 67093 ("Rate
11 Case Order") on June 30, 2004.

12 Arizona-American filed a timely Application for Rehearing, which was denied by operation
13 of law. Arizona-American then appealed the Rate Case Order to the Arizona Court of Appeals.

14 **C. Arsenic Motion.**

15 On December 15, 2004, Arizona-American filed a motion in the Commission's dockets for
16 the RWE Case and the Rate Case concerning Arsenic matters. Arizona-American states that it
17 estimates that it will have to spend over \$42 million dollars to comply with the Environmental
18 Protection Agency's ("EPA") new arsenic rules, which lowered the allowed amount of arsenic in
19 drinking water to 10 parts per billion from 50 parts per billion. Arizona-American estimates that it
20 will spend \$25 million to comply with the new EPA rules in its Agua Fria Water, Havasu Water,
21 Tubac Water, and Sun City West Water Districts. Arizona-American also estimates that it will
22 spend \$17 million to comply with the new EPA rules in its Paradise Valley Water District.

23 Arizona-American's motion makes two requests: (1) that the Commission re-open the
24 record in the Rate Case so as to consider modifying the Rate Case Order by adding an Arsenic Cost
25 Recovery Mechanism; and (2) that the Commission waive Condition 15 of the RWE Order solely
26 for the Paradise Valley Water District. Arizona-American states that it will dismiss its appeals of
27 the RWE Order and the Rate Case Order if its motion is granted.

28 ² Docket No. WS-01303A-02-0867, et al. (the "Rate Case").

II. Discussion.

As we have noted on many occasions, we are very concerned with the costs and difficulty of compliance with the EPA's new Arsenic standard. We continue to urge all Arizona water companies to take appropriate proactive measures to ensure compliance with this standard in a timely and cost-effective manner. In two recent rate orders for Arizona Water Company, we approved an "Arsenic Cost Recovery Mechanism" or "ACRM", which we have found to be an appropriate mechanism to address arsenic compliance. (Decision Nos. 66400 and 66849). Here, Arizona-American seeks approval to take steps towards granting an ACRM for certain of its systems. Under the circumstances, we believe that it is appropriate to authorize these preliminary steps. While we are concerned that Arizona-American did not bring this matter to our attention sooner, we believe that taking these preliminary steps towards an ACRM for Arizona-American is the best course of action at this time.

In particular, Arizona-American seeks authority to re-open the record in the Rate Case so as to consider modifying the Rate Case Order by adding an ACRM. We do not lightly take such a step, because we believe that the finality of our orders is important. Nevertheless, in light of the urgency and the apparent magnitude of Arizona-American's arsenic problem, we believe that under these circumstances re-opening the record in the Rate Case solely to consider the arsenic issue is appropriate. Once an appropriate record is developed concerning the arsenic issues, we will consider whether to modify the Rate Case Order using our authority under A.R.S. § 40-252.

Arizona-American also seeks a limited waiver of the rate case moratorium imposed by the RWE Order. The rates currently in effect in Arizona-American's Paradise Valley Water District were approved in Decision No. 61831 (July 20, 1999). We agree with Arizona-American that the record in that rate case is too stale to be re-opened to address arsenic issues. Accordingly, we will grant a limited waiver for the Paradise Valley Water District only of the rate case moratorium imposed by the RWE Order.

III. Findings of Fact.

1. On December 17, 2001, Arizona-American Water Company ("Arizona-American" or

1 "Company") filed an application³ with the Commission for an order (1) declaring that the
2 Commission's Affiliated Interests Rules (A.A.C. R14-2-801 et seq.) did not apply to the proposed
3 acquisition of its parent company by RWE AG; (2) in the alternative, granting a waiver of the
4 Affiliated Interests Rules for the acquisition; or (3) in the alternative, approving the acquisition
5 under the Affiliated Interests Rules. After a hearing, the Commission adopted Decision No. 65453
6 ("RWE Order"), which approved the proposed acquisition under the Affiliated Interests Rules with
7 various conditions.

8 2. Condition 15 of the RWE Order imposed a three-year rate moratorium on Arizona-
9 American. The three-year moratorium began on the closing date of the acquisition, and concludes
10 on January 10, 2006.

11 3. Before the moratorium period began, Arizona-American filed a rate case for most of
12 its systems in Arizona.⁴ The Rate Case did not include Arizona-American's Paradise Valley Water
13 District. After a hearing, the Commission issued its rate case order as Decision No. 67093 ("Rate
14 Case Order").

15 4. On December 15, 2004, Arizona-American filed a motion in the RWE Case and the
16 Rate Case concerning Arsenic matters.

17 5. Arizona-American states that it estimates that it will have to spend over \$42 million
18 dollars to comply with the Environmental Protection Agency's ("EPA") new arsenic rules, which
19 lowered the allowed amount of arsenic in drinking water to 10 parts per billion from 50 parts per
20 billion. Arizona-American estimates that it will spend \$25 million to comply with the new EPA
21 rules in its Agua Fria Water, Havasu Water, Tubac Water, and Sun City West Water Districts.
22 Arizona-American also estimates that it will spend \$17 million to comply with the new EPA rules in
23 its Paradise Valley Water District.

24 6. Arizona-American's motion makes two requests: (1) that the Commission re-open
25 the record in the Rate Case so as to consider modifying the Rate Case Order by adding an Arsenic
26 Cost Recovery Mechanism; and (2) that the Commission waive Condition 15 of the RWE Order
27

28 ³ Docket No. W-01303A-01-0983 (the "RWE Case").

⁴ Docket No. WS-01303A-02-0867, et al. (the "Rate Case").

solely for the Paradise Valley Water District.

7. Arizona-American states that it will dismiss its appeals of the RWE Order and the Rate Case Order if its motion is granted.

8. Staff recommends that Arizona-American's motion be granted, conditioned on the dismissal of its appeals of the RWE Order and the Rate Case Order.

IV. Conclusions of Law.

1. Arizona-American is a public service corporation, as defined in Article XV, § 2 of the Arizona Constitution.

2. The Commission has jurisdiction over the subject matter of the RWE Case and the Rate Case and Arizona-American's motion dated December 17, 2004.

3. It is in the public interest, subject to the dismissal of Arizona-American's appeals of the Rate Case Order and the RWE Order, to (1) re-open the record in the Rate Case so as to consider modifying the Rate Case Order solely for adding an Arsenic Cost Recovery Mechanism; and (2) waive Condition 15 of the RWE Order solely for the Paradise Valley Water District.

4. Under A.R.S. § 40-252, the Commission has authority to (1) re-open the record in the Rate Case so as to consider modifying the Rate Case Order solely for adding an Arsenic Cost Recovery Mechanism; and (2) waive Condition 15 of the RWE Order solely for the Paradise Valley Water District.

V. Order

IT IS THEREFORE ORDERED that Arizona-American's request to (1) re-open the record in the Rate Case so as to consider modifying the Rate Case Order solely for adding an Arsenic Cost Recovery Mechanism; and (2) waive Condition 15 of the RWE Order solely for the Paradise Valley Water District is hereby granted.

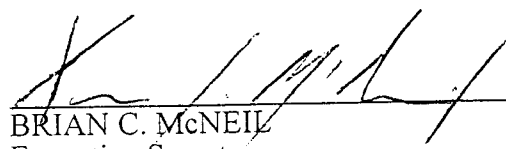
IT IS FURTHER ORDERED that the approvals granted herein are expressly conditioned on dismissal of Arizona-American's appeals of the Rate Case Order and the RWE Order.

IT IS FURTHER ORDERED that the approvals granted herein shall be automatically null and void without further order of the Commission unless Arizona-American dismisses its appeals of the Rate Case Order and the RWE Order within thirty days of the date of this order.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION
CHAIRMAN
COMMISSIONER
COMMISSIONER
COMMISSIONER
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
Executive Secretary of the Arizona Corporation
Commission, have hereunto, set my hand and caused the
official seal of this Commission to be affixed at the Capitol,
in the City of Phoenix, this 15th day of
Feb. 2005.


BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

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DOCKET NOS. W-01303A-01-0983, et al.

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